

Treasury Committee

Oral evidence: Work of the Treasury, HC 1668

Wednesday 24 October 2018

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Members present: Nicky Morgan (Chair); Rushanara Ali; Mr Simon Clarke; Charlie Elphicke; Stephen Hammond; Catherine McKinnell; Wes Streeting.

Questions 1 - 116

Witnesses

I: Sir Tom Scholar, Permanent Secretary, Kate Ivers, Acting Finance Director, and Charles Roxburgh, Second Permanent Secretary.

Examination of witnesses

Witnesses: Sir Tom Scholar, Kate Ivers and Charles Roxburgh.

Q1 **Chair:** Good afternoon to our witnesses. This afternoon we are looking at the work of the Treasury. I am going to ask you to introduce yourselves for the benefit of those watching from outside, and then we have a whole series of questions to raise with you today, some of which you will not be surprised to be asked about, some very topical. Sir Tom, we will start with you.

Sir Tom Scholar: Thank you, good afternoon. I am Tom Scholar, the Permanent Secretary to the Treasury.

Kate Ivers: I am Kate Ivers. I am the Interim Finance Director at the Treasury.

Charles Roxburgh: I am Charles Roxburgh. I am the Second Permanent Secretary.

Q2 **Chair:** Thank you very much. I want to start with the topic of diversity. The forward of the Treasury annual report and accounts talks about the spirit of placing Jane Austen on the £10 note.

Sir Tom, I want to ask you about the progress the Treasury has made in becoming a more diverse organisation, specifically looking at comparing this year's annual report with last year's and the figures in that.

Sir Tom Scholar: Thank you, yes. I would be the first to say we have further to go but I think we are making good progress. I base that partly on evidence, including the evidence in the report and also feedback from staff members and, in particular, feedback from returning staff members; people who have been away from the Department for a few years and come back and have said that they notice a real change.

The report sets out, I think, on pages 31 to 33, the various things that we are doing across different dimensions, and if I could just single out a few highlights. This year, I think for the first time ever on gender diversity, we got to a position of parity in senior management—senior management defined as director and above—between women and men. That is the first time that has ever happened.

On ethnicity we have had—the report sets this out—a real effort over the last few years to improve both retention of ethnic minority staff and also their progression up through the grades. A few years ago we observed the phenomenon that we were quite good at recruiting people at a graduate or junior policy analyst level but, as you moved up the grades, you saw representation fall, so we have had a big effort on that. As a consequence, we have tripled representation at the next level up.



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Third, we have put a lot of effort this year into trying to improve our record for disabled staff. That has been partly through training, partly through physical adjustments to the building, partly through ensuring that disabled staff who ask for reasonable adjustments are provided with them. We went through an assessment under the Disability Confident Leader Scheme and were successful in that. We have also undergone a Stonewall assessment, and that has been good progress.

Then finally on this very difficult thing to crack, which is the question of social mobility, diversity of background, including geographical diversity, we have entered into a number of programmes with a number of partners, which are again set out in the report, to try to improve our visibility in communities, or people from social backgrounds that are not terribly well represented in the Treasury. We have tried to make ourselves an attractive employer and tried to offer those people routes to come and work for us.

Q3 **Chair:** Thank you for that. We did a comparison of diversity within the Treasury across the last two annual reports, so the 2016-17 year and the 2017-18 year. The percentage of BAME has fallen from 18% to 16%. The percentage of female staff, 48% to 46%. The percentage of part-time staff has fallen by a staggering 15 percentage points, 20% to 5%, and the percentage of staff with a disability has remained constant at 7%.

I do not know if you would agree with me. From what you just said, there are obviously lots of programmes, lots of work perhaps going into this, but not necessarily playing out in terms of the percentages as per the annual reports.

Sir Tom Scholar: Thank you. There is one there that I will admit I had not spotted and that was the sharp fall in part-time staff. That is obviously a statistically significant fall and I will go and look at that. I would say, though, on part-time staff, when we look at remuneration of staff each year as performance bonuses are awarded, we look extremely carefully at the breakdown between full-time and part-time staff. Certainly for senior staff I cannot remember whether you are exactly as likely to get a bonus if you are part-time as full-time. It is either that or very close to it, but that is one that I will certainly look at.

On the other dimensions, you are quoting figures across the whole Department. That is not to say that is not important but a difference of 48% women across the whole Department to 46% is not a big difference. It is a difference that could quite easily be accounted for because, after all, that is a snapshot on a particular day. On any particular day there are vacancies. These things do change quite a bit.

To repeat what I said earlier, though, our focus on gender and ethnic diversity has been very much focused at trying to get better representation at senior levels, because that is such an important role model for people, more junior and indeed people who are thinking about it as a place to work.



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Q4 Chair: The gender pay gap, it has been six months now I think since your financial yearend. Are you able to give us the gender pay gap figures for 2017-18?

Sir Tom Scholar: I don't have them yet. We have not completed the analysis. We will release them in November, along with other Departments, and I will make sure—as last year—that I write to you at the time to give you immediate notice of that.

That said, my expectation and hope would be that we will have figures that show a smaller pay gap this year compared to last year, partly because of that improvement in senior representation of women that I have already referred to. Secondly, looking at end year bonuses for last year, there was a much more equal distribution there than the previous year. I think I set that out in the letter I sent you last year.

Q5 Chair: Yes. Thank you. You are right, those figures are about the Treasury itself but, also, the appointments that the Treasury is responsible for making and we then scrutinise in relation to the Bank of England policy committees, for example. Would you care to comment on the progress made in promoting a greater gender balance on those Bank of England policy committees in the course of the last 12 months?

Sir Tom Scholar: Certainly. We have obviously discussed this before and I think you discussed it with the Chancellor too. I fully recognise that we have a long way further to go in terms of diversity on the policy committees; in particular, there is only one woman on the Monetary Policy Committee and only one on the Financial Policy Committee.

That said, I think we had an improved record during the course of this year. In preparation for this hearing, I looked back at the record over this calendar year. If you look at appointments and reappointments to the Bank, there have been 16, including the Governor and the Deputy Governor recently. Those are two internal and 14 external appointments. Of those 14, seven have been women and seven have been men. The women have been concentrated on the Court and on the Prudential Regulatory Committee.

I said earlier that MPC and FPC remain a challenge but it is one that we are working hard on. As I am sure you know there is an FPC vacancy at the moment. We are looking extremely hard at all qualified women for that appointment and we will do the same for the other appointments as they come along.

Q6 Chair: Thank you. We will move on now to appointments to the Treasury's own board. As you will know, this Committee has taken a significant amount of evidence in relation to TSB. One of the non-executive directors of the Treasury, Richard Meddings, has now stepped up—I don't know if you would call it a step up, a step to a different position shall we say—from Chair to Acting Chief Executive of TSB. What is his position at the moment on the Treasury board?



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Sir Tom Scholar: He and I spoke the day that it was announced that he was being made Executive Chairman, precisely to discuss this question. In fact, at his request, what we agreed was that he should step aside from the Treasury board through the time that he is Executive Chairman. He was appointed a non-executive director of TSB last October and then non-executive Chairman in February of this year. On each occasion we looked at that carefully and compared the situation with our code on conflict or potential conflicts. We felt that there was no conflict there, or at least to the extent that one arose it was one that could be managed.

To give a particular example, in relation to National Savings and Investments, which is a Treasury arm's length body and obviously a direct competitor in the market of TSB, anything relating to that clearly it would be entirely inappropriate for him to play any part in or join a discussion on. The Treasury board is not a policymaking body. It is more a governance body, so as long as he was a non-executive we felt that that could be managed. The minute he became an executive I felt—and he felt too—that that just would not be proper, so he has stepped aside for as long as it takes them to find a new chief executive.

Q7 **Chair:** He is also a non-executive director at Deutsche Bank as well? Is that the same thought process in terms of the split between non-executive and executive? I don't know how many other external board members of the Treasury with a similar relationship with a bank or financial institution that that applies to.

Sir Tom Scholar: A number of our non-executives, past and present, have also had non-executive positions elsewhere. To an extent that is part of the point. The purpose of these boards is absolutely to bring in external expertise and people who can bring a perspective from other parts of the economy.

We have always taken the view that these conflicts can be managed. There is a clear distinction between a non-executive and an executive position. To take the case of Deutsche Bank, were it to be the case that we ever discussed at the board committee policy matters directly related to Deutsche then there is no question at all that Richard Meddings would step aside for that discussion.

The important thing is to have transparency over positions, to have those declared and formally recorded in the Department, to have a proper process for considering where the potential conflict might arise and then make sure that it is addressed.

Q8 **Chair:** Thank you. The Treasury board only met once this year. Is that correct? Is that enough, do you think?

Sir Tom Scholar: That is correct. If you look back over the year since these boards were first established, I think in 2010, that has typically been the pattern. It has normally been one meeting of the Treasury board but more meetings than that of the various committees.



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The reason for that is that both this Chancellor and the previous Chancellor have taken the view that, since the Treasury is a Department that does not have the same large operational responsibilities that some other big operational, big spending Departments have, a different emphasis on the governance arrangement is appropriate. For example, when the current Chancellor was the Secretary of State for Defence he regularly chaired his departmental board and, given the big commercial issues he was dealing with, found it very useful to have that.

Both he and his predecessor take a different view at the Treasury. In practice, what they do is delegate much of the work of the board to the board sub-committee, which is chaired by the lead non-executive, and to the Audit Committee, which has been chaired by Richard Meddings but at the moment is clearly not.

The Treasury board, which includes Ministers, non-executives and a few senior officials, has tended to meet once a year to give the Chancellor time to hear directly from the non-executives their views on the performance of the Department and any issues they want to bring to his attention. That has been an arrangement that has served us well.

Q9 Chair: As I understand it, when it did meet, neither the Chancellor nor the Chief Secretary nor the Economic Secretary was in attendance.

Sir Tom Scholar: I believe that is correct. If I remember rightly, the Chancellor was stuck in Riyadh because a snow storm—obviously not in Riyadh—in London had delayed his flight back. The Chief Secretary was at an unexpected meeting of Cabinet, which I think was called because of the proximity to the European Council, and I am afraid I cannot now recall why the Economic Secretary wasn't present but, again, there was a good reason.

Kate Ivers: Snow up north.

Q10 Chair: I think the point I am trying to make—you made the point about Ministers and non-executives and others. I remember from my time on the DfE board that it is valuable to hear from the non-executives, for Ministers to hear and to bring some external rigour to matters that the Department is discussing. It just seems strange that the board meeting would go ahead, when three senior Ministers are not there and that appears to be their only opportunity in the year to meet with the non-executives to discuss these issues.

I am thinking particularly about an issue like diversity, for example, where leadership is very important, and presumably it is not just down to you, Sir Tom, as Permanent Secretary. Actually, having the Chancellor reiterating the same messages around the importance of diversity is important for everybody from the board downwards to hear.

Sir Tom Scholar: That is a point I take. On that occasion we did consider postponing it and rearranging it in the new year. Given how difficult it had been to arrange anyway around diaries, we decided we



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would go ahead. The Chancellor did get a report on it, not just from me but he also spoke to the senior non-executive. I think that was in January, so he was able to hear. I think she sent him a written report of it as well, so there was a reporting line back through but, as you say, it was unfortunate and disappointing that it wasn't able to go ahead with full attendance.

- Q11 Chair:** It will not surprise you to know that there is going to be quite a few questions on Brexit this afternoon. Obviously it is a quiet time in our Brexit negotiations. First of all, you will be aware that the Committee has appointed Professor Sir Stephen Nickell to evaluate the economic impact of the proposed EU deal. Obviously, we are expecting analysis from the Treasury, but you will be aware that the Bank of England is also going to be providing its own analysis as well from the Policy Committee's perspectives.

Can you confirm that the Treasury will be co-operating with Sir Stephen on the Committee's behalf, giving him access to the assumptions and the modelling that the Treasury will be using in its analysis?

Sir Tom Scholar: Of course, we have received your letter and the Chancellor is currently considering it. I think he hasn't as yet replied.

Chair: I don't think so.

Sir Tom Scholar: As you will understand, with the Budget just a few days away, he has quite a lot on his mind. I do not think I ought to pre-empt his reply, but what I can say—echoing what you said in your letter—is that Stephen Nickell is obviously somebody we have worked very closely with in the past, from his time on the Budget Responsibility Committee. He is also extremely familiar with the Treasury approach to modelling, so I cannot anticipate there would be any difficulty there but the Chancellor will be replying shortly.

- Q12 Chair:** We have the Chancellor before us on 5 November to ask him about that. The other question I want to ask you about is the European Investment Bank, because the shareholders obviously are the 28 member states of the EU. Do the Government intend to negotiate continued membership of the EIB after 29 March? Mr Roxburgh, if you are the appropriate person to reply to that then please do feel free to chip in here.

Sir Tom Scholar: Let me have a go and then if I miss something Mr Roxburgh can chip in.

That is one of a number of issues that remains to be settled in the negotiation over the future, so obviously the Government proposals for the UK's future relationship with the EU envisage deep co-operation in a number of areas, including a number of agencies.

As I go around the country, one thing that strikes me is that you get many views in different parts of the country on the EU as an institution



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but it is very rare to hear any form of criticism for the contribution that the European Investment Bank makes, because it does provide very significant support to communities and to industry all across the country. Therefore, we are conscious of the value that it provides. That said, it is an institution whose status is set out in the treaty. There is no example of a non-member state that is a member of it, so it is not obvious what can be negotiated here.

All I can say is that the engagement on this so far has revolved around settling, as part of the withdrawal agreement, or unwinding the UK's shareholding of the EIB as a member state. There is then going to be a separate question about what kind of arrangement could be made with it in the future, and I just do not know today what the answer to that would be.

Q13 **Chair:** Okay. Mr Roxburgh, yes?

Charles Roxburgh: Could I add a couple of points? First of all, on the EIB, as you may remember the National Infrastructure Commission in their National Infrastructure Assessment addressed this point. It agreed with the Government's preferred position of maintaining a continuing relationship with the EIB after we leave the European Union, but if that is not possible it recommended that we should then conduct a feasibility study of what our alternatives would be. We have not responded to that yet, but the National Infrastructure Commission has made that recommendation to Treasury in respect of this option if we cannot continue the relationship.

In relation to the EIF, which is a related but different body, through the British Business Bank we have scaled up the Government's commitment to support innovative, high growth companies through British Patient Capital. That is filling part of the space that the EIF has historically filled here of investing in venture capital and later stage growth funds. That is now up and running and is filling that space. If we do not have a continuing relationship with the EIB, or the EIF, British Patient Capital is part of our response to that very important segment of the market.

Q14 **Chair:** Yes. Before I hand over to Catherine McKinnell, I understand that one of the sectors the EIB has provided the largest source of funding for is housing associations. Of course, for very understandable reasons, there is a huge cross-Government push to build more houses and I assume that housing associations are going to be a continuing part of that.

My understanding is that the EIB has been told to stop lending in Britain after 29 March next year. If that lending is to stop, what you are saying is that British Patient Capital or the British Business Bank will step in to enable people like housing associations to continue to flourish?

Charles Roxburgh: British Patient Capital is focused on a different segment of the market. That was more the venture capital than growth capital, which is what the EIF is focused on. The EIB activities supported a number of areas. If we do not have a continuing relationship, one of the



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issues that we would need to consider is: what would be the form of intervention that would be additive? We would need to make sure that it was actually adding what the private sector can do, and so we would look at existing Government schemes, if that was appropriate, whether the private sector could step in and fill the role left by the EIB or whether we needed to have more use of our guarantee scheme, which exists and we could use the guarantee scheme.

There are a number of interventions that we could do but, at this stage, our preferred option is to negotiate a continuing relationship with the EIB. If that proves not possible then we will respond to this, and I see a recommendation that we develop alternative options.

- Q15 **Chair:** Just for the sake of clarity, those discussions about the continuing relationship, is that something that is part of the Prime Minister's discussions or senior Government officials' discussions over the whole withdrawal agreement, or is it a separate stream of discussions that is happening between the Treasury and the relevant part of the European Commission?

Sir Tom Scholar: The whole negotiation is one single one between the centre of Government and the European Commission's Taskforce on Article 50.

- Q16 **Chair:** It is part of the withdrawal.

Sir Tom Scholar: It is in fact not the withdrawal but the next stage, which is the future framework agreement.

- Q17 **Catherine McKinnell:** The Government have committed to spending an additional £20 billion on the NHS by 2023. Has the Treasury worked out how it is going to find the money?

Sir Tom Scholar: I hope you will understand if I am a bit constrained as to what I can say here with the Budget just a few days away. Of course, we were closely associated and a party to the original agreement in the summer on that additional funding for the NHS. It is part of our job to work out how that can be funded consistent with the Government's overall fiscal objectives, and I am sure the Chancellor will be saying more about that on Monday.

- Q18 **Catherine McKinnell:** Sorry, did you say you were party to the agreement as part of the decision-making?

Sir Tom Scholar: The agreement on NHS funding?

Catherine McKinnell: Yes.

Sir Tom Scholar: Yes, absolutely.

- Q19 **Catherine McKinnell:** Is that a "Yes" or a "No" in terms of having found and worked out how to find the money? Is that an ongoing process?



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Sir Tom Scholar: The Chancellor is making his Budget statement on Monday and I am sure he will address this question then.

Q20 **Catherine McKinnell:** I am not asking for the details of where the money is going to come from. The question is: have you begun the work of finding where that money is going to come from?

Sir Tom Scholar: We have been working continuously for the last few months on preparing for the Budget. The work is not complete because it is still only a few days away, and documents need to be finalised and printed and so on, but you can certainly expect that on Monday the Chancellor will address the question of funding.

Q21 **Catherine McKinnell:** And reveal all. Okay. On a more general basis, though, are you confident that the Treasury is given sufficient notice when big budget announcements are made in order to carry out the preparations that are required?

Sir Tom Scholar: Typically large funding announcements happen at fiscal events, whether Budgets or Spending Reviews.

Q22 **Catherine McKinnell:** Obviously, this one did not.

Sir Tom Scholar: This one did not. I agree that is an exception to the rule. At the same time it was very well telegraphed in advance, including publicly. If I remember rightly, my colleagues at the Treasury were closely engaged with both the NHS, DHSC, and of course No. 10, for many months ahead of the announcement, so we had plenty of time to prepare and work together on that

Normally, when you would make a new spending commitment, you would do it at a fiscal event and you would have a statement at the same time as to the funding of it. Clearly, outside the fiscal event cycle, while it has happened it is very unusual to make any funding announcements outside that cycle. At the time it was said that would be addressed at the next fiscal event, which is on Monday.

Q23 **Catherine McKinnell:** Yes, and we wait with baited breath. The Prime Minister did say that part of the £20 billion that has been pledged would be funded from the Brexit dividend. What size has the Treasury calculated the Brexit dividend to be?

Sir Tom Scholar: I have addressed this here before and I think the Chancellor has addressed it here before, including in answer to a question from you. It is certainly the case, as a matter of arithmetic, that once the UK is no longer making net contributions to the EU that is a call on the public purse that will be available for other purposes. At the same time, it is also true that, depending on what the future relationship is, how different it is from the current relationship and what the economic impact is, there will be an impact on the economy and the fiscal receipts, which is potentially greater than that.

Q24 **Catherine McKinnell:** I appreciate you have answered that question



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before and obviously that is not really an answer to the question, or is the answer that you don't know what the Brexit dividend will be?

Sir Tom Scholar: The answer is: nobody knows and nobody can know until we know what the future relationship will be.

Q25 **Catherine McKinnell:** That makes the pledge that some of the £20 billion for the NHS will come from the Brexit dividend quite a difficult assertion to stand up.

Sir Tom Scholar: In terms of the public accounts, as I have said, it is certainly the case that the line that currently reads, "EU net contributions" will reduce very sharply and gradually go to zero, so to that extent there is money available there that is available for other purposes.

Q26 **Catherine McKinnell:** There is quite a lot of analysis, for example, from the IFS Director, Paul Johnson, who says, "There isn't a Brexit dividend", the economy has already shrunk as a result of the Brexit vote and the Government have accepted that the public finances will be £15 billion or so worse off, not better off. Do you disagree with that statement?

Sir Tom Scholar: Lots of people have made estimates and counterfactuals. In making the estimate that the IFS made there, it has had to take a view on how the economy would have performed without a decision at the referendum that the UK should leave the EU. That can only be a guess. It cannot be scientific. I know that other people have also compared previous forecasts to what has actually happened. Well, lots of things have influenced what has actually happened compared to what was forecast.

The Government do not have an estimate of what the impacts on the economy has been of the referendum decision. At the time that there is agreement between the UK and the EU, and it is before Parliament to take a decision on, what we will do at that point—as the Chancellor has said to this Committee several times—is carry out the Government's commitment to provide the analysis that Parliament needs to take a view on that proposal.

Q27 **Catherine McKinnell:** I think what you are saying is you neither agree nor disagree with that statement because the Treasury does not know.

Sir Tom Scholar: I cannot answer the question: what impact has the 2016 referendum had on the economy?

Q28 **Catherine McKinnell:** Nor what impact it will have?

Sir Tom Scholar: Many people have produced estimates of that. They can only be estimates. We have—

Q29 **Catherine McKinnell:** I am just establishing that the Treasury does not know. Obviously it is not for you to comment upon the statements that the Chancellor or the Prime Minister may have made, but there is no way



that they would know either that there is a Brexit dividend.

Moving on to the speech of the Chancellor at the Conservative Party Conference, in which he predicted there will be a deal dividend when the UK leaves the EU, could you comment on what this deal dividend is?

Sir Tom Scholar: First of all, if I may just go back to the Brexit dividend. As I have said, certainly how I interpreted what the Prime Minister said back in the summer, she was referring to the reduction and ultimately the elimination of the UK's EU net contribution, so I am not in any sense—

- Q30 **Catherine McKinnell:** The Treasury will know that you cannot look at that in isolation because there are clearly many costs to the economy, as a result of Brexit, that very much offset any reduction in terms of EU contributions, so that does not stand up.

Sir Tom Scholar: I have been very frank on that too and the Chancellor has too. There are things going in each direction. When the Chancellor has referred—as he has done a couple of times recently—to the deal dividend, what he has meant by that is the following. As we sit here today, there is obviously considerable uncertainty as to what the outcome of the negotiation with the EU is going to be. He has said that if the negotiation could be concluded successfully, which is the Government's intention, in a way that is supportive to the economy, that will remove a lot of that uncertainty and you would certainly expect that to have a positive impact on consumer confidence, investor sentiment and so on.

- Q31 **Catherine McKinnell:** It is not really a deal dividend, is it? It is forestalled investment. It is investment that would have taken place had we not voted to leave the EU.

Sir Tom Scholar: He is talking about the situation in a few months' time compared to the situation today, and obviously today there is uncertainty and to the extent that that can be cleared up that would be helpful.

- Q32 **Catherine McKinnell:** Okay, but it is not a deal dividend as anyone might understand it to be.

I want to ask about another frontline public service. It is not necessarily connected to Brexit, but it was reported yesterday that the police are facing a fresh funding crisis because the Treasury is demanding that forces pay 39% higher employer pension contributions and they have been given no warning of this. In my local police force this would be a bill of around £11 million, 220 police officers, when they have already lost a lot of police officers, 900 since 2010. Could you provide some clarity on that?

Sir Tom Scholar: If I am right, the announcement on this was made in July through a written statement. What happened there in the police, and also in other public sector workforces, was the application of a formula previously agreed—I think I am right in saying—at the Spending Review



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in 2015, as to how the pension contributions would be calculated because of movements in the discount rate. That is—

Q33 Catherine McKinnell: Is it fair to say that it is an additional pension contribution that has been asked for without warning?

Sir Tom Scholar: Again, these things don't happen just over night. In the 2015 Spending Review was when the formula was agreed, so Departments have known that this was coming. I think the correct way to look at this is as another pressure on Departments and on public services. Obviously the money cannot just appear from nowhere, so we understand it places additional pressure and that is one of the many things that need to be resolved in the Spending Review.

Q34 Catherine McKinnell: Which we are looking forward to on Monday. Going back to Brexit and whether there is a Brexit dividend or a deal dividend, I think there is a lot of doubt about both but one thing that does seem to be clear, in terms of the costs of Brexit, is the Government have to take on a substantial increase in staff in order to deal with Brexit as a process. Obviously that comes with its own cost and the Institute for Government has estimated it at around £2 billion, roughly, across the Departments. In terms of the core Treasury Department, you have 230 more staff than you did 12 months ago. Is that correct, and what are those staff working on?

Sir Tom Scholar: First of all, looking across the whole of Government, it was announced a year ago that the Government would allocate £1.5 billion this year and £1.5 billion next year for Brexit preparations. I did not see precisely the Institute for Government figure but it sounds quite consistent with what we have. To be clear, that is £1.5 billion across Government, additional to existing spending plans, to be spent on preparing for Brexit.

Q35 Catherine McKinnell: All of that cost is going on staffing in terms of preparing for Brexit?

Sir Tom Scholar: I do not think it is entirely staffing. I am sure in some cases Departments need to invest in new systems, computer systems, for example, but I would guess that—

Q36 Catherine McKinnell: What proportion of current Treasury staff is working on Brexit?

Sir Tom Scholar: Let me first answer your earlier question, which is the increase. As you say, you have seen in the annual report an increase of £230 from 2016-17 to 2017-18. That is the whole Treasury group, including arm's length bodies. Roughly half of that or just over half, 125 I think, is the core Treasury. We have not done a reconciliation of precisely how much of that is Brexit-related and how much is not, but I guess the great majority of it would be Brexit-related.



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In answer to your question of how many Treasury staff are currently working on Brexit, our estimate is that it is roughly 400 full-time equivalents. Obviously some people spend some of the time working on that and some working on other things, but our estimate is 400 full-time equivalents. That is out of a total Department size of 1,300.

Q37 Catherine McKinnell: In terms of all those staff now working on Brexit, has it meant any delays or cancellations of Treasury projects or the workstreams? Has it had an impact on your policy formation work?

Sir Tom Scholar: We have obviously had to reprioritise and move people off other areas onto this. Like other Departments, we have made a claim to the Reserve to take on extra staff, so that is part of that £1.5 billion I was talking about earlier.

We have been able to do that without compromising essential work on other areas, whether it is public spending or budget preparation or financial services or international work, but it is a constant process of reprioritising to make sure we are able to cover all the things we need to cover.

Q38 Catherine McKinnell: One final question: has the Treasury calculated the cost of having to establish any new regulatory bodies once the UK leaves the EU? Do you have a figure of what the cost of that is going to be?

Sir Tom Scholar: We do not yet have a figure for that. That is something I have also been asked by the Public Accounts Committee, and I think the letter that you sent jointly with the Chair of the Public Accounts Committee raised this question. The answer is: partly because we have all been completely preoccupied with supporting the withdrawal agreement and the early work on the future framework; partly because we need to work out through that work on the future agreement which EU regulatory agencies the UK will continue to participate in.

Q39 Catherine McKinnell: Does the Treasury not even have a ballpark figure? Presumably, if we are talking about Brexit dividends and deal dividends, and projecting the ability to spend some of that money on public services, you must have some kind of ballpark figure of the costs that are on the horizon in terms of regulatory bodies.

Sir Tom Scholar: The answer is: we don't yet but we will expect to address that in the Spending Review, so the £1.5 billion—

Q40 Catherine McKinnell: We can look forward to that on Monday again?

Sir Tom Scholar: Not Monday. The Spending Review next year.

Catherine McKinnell: No, the following—

Chair: Next year.

Catherine McKinnell: We have to wait. Okay.



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Sir Tom Scholar: The bids that we have had from Departments so far have related to preparation this year and next year, on the expectation that through the implementation period the UK will remain a part of these agencies through its continued participation in the single market.

Q41 **Catherine McKinnell:** How do we know we are going to be able to afford it all? How do we know we can even afford Brexit?

Sir Tom Scholar: As I say, we do not have a clear sense yet of exactly which agencies we are going to need to participate in. I will say—going back to an earlier comment that both you and I have made—the overwhelmingly important thing here is the nature of the UK’s economic relationship with the EU. If it is a close one that supports continued economic growth then we can certainly afford to establish a few new agencies. That is why it is absolutely essential that that is what is agreed.

Catherine McKinnell: Thank you.

Q42 **Charlie Elphicke:** All this talk of Brexit dividends, deal dividends, the other day I read in the paper—I think it was the *Financial Times*—there was a £13 billion windfall of tax receipts. Can you confirm that figure and tell us where that came from?

Charles Roxburgh: I think I ought to take that question because it is not about Treasury finances. It is about Government finances.

Charlie Elphicke: Tax receipts.

Sir Tom Scholar: I think you are referring to a report in yesterday’s *Financial Times* and I think you will have to ask the *Financial Times* where that figure came from. It is not a Government figure, because the Government are not providing any figures until the Budget on Monday.

Q43 **Charlie Elphicke:** So the *Financial Times* has made it up. That is shocking.

Sir Tom Scholar: That is not what I said.

Q44 **Charlie Elphicke:** Well, where did they get it from? Do you recognise this figure?

Sir Tom Scholar: Chair, I will have to take the fifth on this. I cannot speculate on the fiscal position ahead of the Budget.

Q45 **Charlie Elphicke:** For argument’s sake, let’s just assume that there was a £13 billion tax windfall. Will we find out on Monday the choice that might be made as to whether to hand over that £15 billion to Brussels for an extra year or give the people’s money back to them?

Sir Tom Scholar: On Monday the Office for Budget Responsibility will set out the latest forecast, including fiscal forecast, and the Chancellor will set out the Government’s response to that fiscal policy and his intentions on tax and any spending measures. That is the case with any Budget.

Q46 **Charlie Elphicke:** For argument’s sake, if this amazing figure the



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Financial Times seems to have just come up with all by itself were to be shown to be accurate on Monday, money could be handed over to Brussels for an extra year so we could stay in Hotel California or it could be used for extra public spending or in tax cuts. Is that fair?

Sir Tom Scholar: I think you are referring here to the question of the extension to the implementation period, and that is something I think that the Prime Minister answered a number of questions on during her statement on Monday. This possibility of an extension to the implementation period, as she said, is something that arose at the European Council last week. It has not been agreed.

As far as I am aware, it is something that was discussed there and has not been discussed further. Obviously, it is part of the ongoing discussion between the Prime Minister and her team and the European Commission. It is not something that we are directly involved in, but nowhere in that discussion—including the statement on Monday—did I read anything about the potential cost that would be associated to it. If there were a subsequent negotiation on that then maybe that is where that would be addressed, but it is not on the table at the moment.

Q47 **Charlie Elphicke:** I asked the House of Commons' library and they said it would cost £15.6 billion for an extra year if we lost the rebate, which everyone seems to think we would.

Sir Tom Scholar: With great respect to the House of Commons' library, I am not quite sure how it would have arrived at that figure since it would inevitably be a matter for negotiation and, by definition, you cannot predict what the outcome of a negotiation would be.

Q48 **Charlie Elphicke:** If we had a £13 billion tax windfall, what we could do is we could use it to fund the police more. In Kent they face an £11.5 million bill for the pensions matter because of the Treasury. Do you not think that it would be the right thing to actually fund more to the police and deal with the pensions' issue?

Sir Tom Scholar: It is not for me to make decisions on how public finances are allocated. That is a matter for the Chancellor and that is what he will be setting out on Monday.

Q49 **Charlie Elphicke:** Then, looking at the public finances, I saw a report by the IMF the other day on managing public wealth. It says that we are massively indebted, one of the worst and most indebted countries in the world. What do you make of that report?

Sir Tom Scholar: I also saw that report. Let me comment on it briefly. What the IMF was looking at there was a particular measure of the public balance sheet called public sector net worth, which is not typically used for international comparisons. It is a very broad definition of the balance sheet, which certainly has its uses. It includes things like, on the assets side, non-financial assets, fixed assets, which the UK Government have rather few of compared to international competitors. On the liabilities



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side, it includes unfunded pension liabilities, which as we all know are quite high in the UK by international standards. Therefore, it is not at all surprising that on that metric the UK fiscal position looks quite weak.

I would just say three other things, though. On the more typical measure used for international comparisons that, for example, the IMF routinely uses, the general Government gross deficit. On that measure the UK is much more in the pack of industrial countries, higher than some but lower than others.

Second, the Government would certainly agree that the debt position is too high, and a very clear statement of Government fiscal policy is to bring down the debt.

Third, as not just the Government but Parliament and the country as people look at these fiscal choices, what is really important to do is to have good information. The IMF has said—including in that report—that the UK is the most advanced country in the world in terms of fiscal transparency, so the particular information that I think drove that result on unfunded pension liabilities is something that we disclose routinely through the whole of Government accounts.

In a sense, there is no news there. It tells us something we already knew about the shape of the balance sheet but it also does tell us—which I think is the premise of your question—that the debt is very high.

Q50 Charlie Elphicke: That is not really quite the case, is it? The IMF says we have one of the weakest fiscal positions in developed nations. It effectively says the Treasury has been cooking the books.

Sir Tom Scholar: I do not think they said the latter. They did say that on the measure of public sector net worth, measured on that definition, the UK private sector's net worth is very low by international standards. At the same time, as I have said, on the definition that is typically used you get a different result.

I should finally say that private sector net worth, while it is a very useful concept in looking at the balance sheet, on the asset side it excludes what is actually the most important asset, and that is future tax receipts. By looking at future pension liabilities but not future tax receipts, I think that gives an incomplete picture of the fiscal position. It is important to look at that too. That is why we asked the OBR to produce long-term projections so that people can look at these long-term trends and make choices.

Q51 Charlie Elphicke: The Procedure Committee of this House is looking at the idea that we should have a budget committee, and a budget committee could investigate matters like this and have greater transparency. Would the Treasury welcome greater transparency in terms of compilation of debt and spending figures?



Sir Tom Scholar: As the annual report says, we welcome transparency. We are subject to a lot of it, and rightly so, partly through this Committee, partly through the Public Accounts Committee and partly through the National Audit Office. We welcome transparency and we are also strong believers in promoting fiscal transparency and we have over the last couple of years produced, for the first time, these reports that have put us right at the international forefront.

Transparency is good. It is healthy for public debate. You get better arguments and better choices as a result. The machinery of parliamentary committees is a matter for Parliament. That is not a matter for the Treasury.

- Q52 **Charlie Elphicke:** We have an OBR. With all the discussion about Spending Reviews that Catherine McKinnell was raising as well, maybe we should have a sister organisation that you might call the Office of Spending Responsibility in order to make sure that we start to look at what things should be spent on, what things should not be spent on in Departments, rather than just chopping 10% off across the board as seems to actually happen. We could then take forward public service reform, which does not seem to have happened for years.

Sir Tom Scholar: The Office for Budget Responsibility does provide a great deal of commentary on public spending. In its forecast the OBR makes an assessment of what it thinks the Government are going to spend, which is not always exactly the same as what the Government say they are going to spend. In its longer term work—and I would direct everybody to the OBR's fiscal risk report—there is some very interesting commentary there on long-term public spending trends and risk to the public purse from various spending issues.

- Q53 **Charlie Elphicke:** When we are looking at public spending, isn't there an issue that the Treasury comes along and just do cheese paring rather than look at a zero analysis of: should we be doing this activity? Are we duplicating that activity? Could government be more efficient? Could public services be delivered more effectively in the modern era? Isn't it time that we had a step-change as to how we analyse things so we get better bang for the taxpayer buck?

Sir Tom Scholar: We are embarking on precisely that exercise in the run up to the Spending Review next year. Our spending teams put a lot of energy into assessing value from spending. It is absolutely not an arbitrary percentage cut or an approach of that sort. As we get into the Spending Review with Departments we will be trying to do exactly that.

- Q54 **Charlie Elphicke:** Finally, my constituents in Dover and Deal are on the Brexit frontline. We all read with great interest that in the Chequers' proposals there was going to be a stepping up of no deal preparations. Can you set out the examples in which the Treasury has stepped up preparations since the Chequers' proposals were published?



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Sir Tom Scholar: The principal area of our activity for which we would be responsible would be financial stability. That is obviously something we always keep a very close eye on with the Bank and the FCA. We will continue to work on that and if at any point there is a Government decision to step up that side of things we will be ready to do that.

Q55 **Charlie Elphicke:** It is not just financial stability. It is also Customs. I think HMRC comes under the Treasury, doesn't it?

Sir Tom Scholar: No, it doesn't come under the Treasury. It is a separate Department in its own right and I would suggest that HMRC is best placed to answer. I know my colleague, Jon Thompson, has appeared before this Committee and other Committees many times.

Charlie Elphicke: Thank you.

Q56 **Chair:** Before I go over to Wes Streeting, just on the issue of public sector pensions. I wrote to the Chief Secretary about a fortnight ago on the change in discount rates of the schemes and how the costs were being passed on to Departments. I don't know if you know when I can expect a response.

Sir Tom Scholar: Again, the Chief Secretary, like the Chancellor, has the Budget a few days ahead and I am sure you will get a response soon. I shall go and follow it up when I get back.

Q57 **Chair:** Do say the Chair has asked. Thank you.

Sir Tom Scholar: Will do.

Q58 **Wes Streeting:** Good afternoon. Is austerity over?

Sir Tom Scholar: Well, austerity is not a technical term. It is a political term, so let me give an answer by quoting a politician and that politician being the Chancellor. As the Chancellor said recently, referring to the Prime Minister's recent comments as well, the intention of the Government is that, as we get to the Spending Review next year, following a successful conclusion to the EU negotiation, which provides support to the economy of the sort that we have been discussing earlier, in those circumstances the Government's intention would be to increase public services while continuing to bring down the debt.

Q59 **Wes Streeting:** I was hoping you would cheer me up by saying, "Yes" and instead you have quoted the Chancellor, so that is very disappointing. It does kind of underline a challenge. The Prime Minister said in her speech at the Conservative Party Conference that a decade after the financial crash people need to know that the austerity it led to is over and that their hard work has paid off. You have left this as a hostage to fortune. There are two big things to look forward to before we can make a judgment about whether the ambition set out in the Prime Minister's speech will be matched with reality. One is the Brexit negotiations, which are looking very challenging, and then the other will be the Spending Review that presumably will follow in autumn next year.



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In order for us to make a judgment about whether that ambition is met, what do you think the end of austerity would look like in terms of the Treasury's spending paths?

Sir Tom Scholar: I don't think I have said anything different. In fact, I am sure I have not said anything different from what the Prime Minister and the Chancellor have said. They have both been careful not to define it with a precise number so, therefore, I am not able to either.

I would say two things. First of all, I am sure the Chancellor will be addressing this question on Monday in his Budget statement. Secondly, and again as he has observed, it was hitting the Treasury considering what is meant by austerity. You are naturally drawn to the big aggregates, tax spending, but I would have thought for most people in this country, when they think of austerity they think of their own personal circumstances and, in particular, real wages. Obviously, that is not something that the Treasury controls directly. Although I think we should recognise that that is what many people would understand by that.

I hope there is some encouragement in recent figures that show inflation beginning to come down and wage growth beginning to pick up.

Q60 Wes Streeting: Wages are still not where we would want them to be, in terms of when you compare them to pre-crash levels. You are partly right. I would say from my experience of knocking on doors that, eight years ago, when the coalition came in and embarked on a programme of spending cuts in Government, and opposition politicians were talking then about austerity, I think the word just flew over people's heads. They did not really engage with it and they understood the arguments that were being made by the Prime Minister and the Chancellor at the time that the nation needed to tighten its belt.

I think what people now understand austerity to mean is, "My house has been burgled. I have phoned the police but no one is coming for days and when they do come they tell me they do not have the resources to properly investigate it" or "When there is some antisocial behaviour on the street corner and I call the police they don't come immediately, because the blues in twos are responding to more serious incidents and the resources aren't there" or "When I apply to get a GP appointment I am waiting far too long" or "My hospital appointment has been delayed" or "I am getting a begging letter home from school".

I think actually the reason why austerity is a more salient political term now than it was eight years ago, is because the everyday experience of the universal use of public services for most people is now worse. In that context, what hope can you provide in terms of thinking ahead to the next CSR that people will begin to see proper real term spending increases in the public services that most people use in one way or another?

Sir Tom Scholar: First of all, I would recognise that there has been an eight-year squeeze on spending. If you just look at the aggregate figures,



total spending has come down over those eight years by 5 percentage points, which is very significant, and it is not surprising that that has had consequences.

In terms of: where next? I have set out what the Government's ambition is. The Spending Review is next year. That is the time when we will be allocating money across Departments into public services. We will be doing that in the way that Mr Elphicke was suggesting earlier, which is looking very hard at trying to allocate money where there is the greatest need and where the greatest value can be derived from it. That is an exercise that we are just starting.

In terms of the overall numbers and filling out a bit more of what we can expect given the latest information that is something that I will have to leave to the Chancellor for Monday.

Q61 Wes Streeting: Sure. You have been in front of this Committee enough times to know that trying to get you to say anything else is going to be a fruitless exercise, so I am going to move on to a couple of more issues before handing on.

One is that in response to the Committee's 2017 Budget report accord, for any Government use of the statistically disregarded RPI, to be replaced with CPI, the Government told us that they would do so, "Once its fiscal consolidation plans have been implemented". Therefore, particularly in light of our previous exchange, can you tell the Committee when we can expect some meaningful progress to move away from RPI? You will have seen our report on student loans as well. This is an issue that is bugging us and we want you to fix it, so when can we expect that to happen?

Sir Tom Scholar: It is an issue that we are working on. I cannot give you a precise timetable but I can say a little bit about it. First of all, we fully recognise the statistical flaws in the index. They are very well documented and we recognise that. The statistic that is in the course of replacing it is the CPIH, which is the CPI with a housing element in it. That is something that only has a track record of 18 months or so and it is not that long since it got the status of an official national statistic. Before making any switch it is very important to have a good sense of its performance. Secondly, by definition, any move from one index to another—to the extent the numbers are different, which they are almost certainly going to be—is bound to create winners and losers and there is a question of how you take the consequences of that.

Thirdly, this is a very important point, the Chair of the Statistics Authority wrote to the House of Lords Economic Committee a few weeks ago—the letter is public—and referred to the need for any arrangements to move from one to another to be brought in over a period of time. The RPI, as an index, is so hardwired into the economy that it is not possible to make a quick change. Millions of private sector contracts are based off it, one way and another. Thinking of public finances, for index-linked gilts the



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index on which they are based is the RPI. It would, therefore, be extremely important to make sure any change that is made does not cause any disruption in the gilts market.

In summary, it is a serious issue. It does need fixing. It is not going to be a simple or quick fix. However, we are working closely with the ONS, in particular, on this and I hope we can say something more about it soon.

Q62 Wes Streeting: It is not simply about fiscal consolidation, it is also about some other practical considerations that you need to work through.

Sir Tom Scholar: The practical considerations are very important.

Q63 Wes Streeting: Finally then, obviously you are one of the most senior civil servants in the country. This Committee is politically diverse—party politically diverse and diverse in terms of the referendum—and I think all of us unanimously were disturbed by the threats the Permanent Secretary of HMRC received, having given evidence in good faith to this Committee.

This morning I see one of our MEPs in the European Parliament saying, “Olly Robbins and the British Civil Service are the enemy within. They signed up to the European dream many years ago and want to sabotage Brexit”. How do you, your colleagues and the Civil Service at large, respond to that kind of language and those sorts of charges?

Certainly, in my own experience as an Opposition politician, I have always found civil servants highly irritating in following the line of the Government of the day, even though we try to tempt them into saying things that are politically useful for us. It is a serious issue. You are a senior civil servant. When it comes to attacks on your integrity as civil servants you ought to have a voice.

Sir Tom Scholar: Thank you for your remarks, and thank you for the question. Obviously, as civil servants, we do not have a public platform and I think we should not have a public platform. These Committee hearings are an exception to that rule but generally we keep our views to ourselves.

That said, certainly talking to colleagues over the last couple of days, we have all seen the comments from right across the House to the Prime Minister’s statement on Monday that you have referred to. There have been a number of voices, again from all sides of the political spectrum, supporting the work of the Civil Service in these difficult circumstances. That public support is something we are very grateful for, and I thank you for your remarks.

Q64 Mr Simon Clarke: I associate myself with what Wes just said, which absolutely applies right across the House.

Green finance is something close to my heart. When it was evaluating the value for money from the sale of the Green Investment Bank 10 months ago, the National Audit Office set its yardstick to ultimate value for



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money as being, “whether the Government needs to intervene again in this way to stimulate growth in the green economy and to help it achieve its climate change commitments”.

Ten months on from the sale of the Green Investment Bank we hear about the Green Finance Institute. How will this materially differ from the GIB?

Charles Roxburgh: I will take that one. The Green Finance Institute is not going to be a lending institution. It is going to be a group in the City, based in the Corporation of London initially, which will be a nexus for bringing together the Government and the private sector to work together in terms of helping to stimulate private sector initiatives in green finance.

Green finance is an enormous opportunity for the UK commercially. It is also hugely important to finance the enormous investment we need in our clean energy infrastructure. The good news is that, through this, the UK has made a good start on building a very successful set of capabilities in green financing. The idea of the Green Finance Institute is to provide co-ordination between the Government and private sector to really exploit that full potential.

Q65 **Mr Simon Clarke:** There will be no lending conducted through the GFI proposed at all?

Charles Roxburgh: No, it is not a financial institution in that sense. The Green Investment Bank was making investments and catalysing the private sector. This is much more co-ordinating policy and co-ordinating promotion of the extraordinarily strong capabilities we have in green finance.

Q66 **Mr Simon Clarke:** In essence, its role will be linking up investors with those who can lend; a broker almost?

Charles Roxburgh: Over a number of years we have had very successful collaboration between Government, the Treasury as the lead Department within Government, and the major—and small—financial services firms. We have had a series of these collaborations to drive successful outcomes. I point you to FinTech, where we have also worked very effectively between the Government and, in that case, small entrepreneurial businesses to help the UK become a world leader in FinTech.

What we found out is that to have that effective collaboration between Government and the private sector it is very useful to have a co-ordinating body that brings us all together so that we can develop joint initiatives and work out how to promote the UK’s capabilities in this area.

Q67 **Mr Simon Clarke:** To try to get a sense of the scale of what is being considered, how much money will the Government be committing to the GFI?



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Charles Roxburgh: It is joint 50/50 with, at the moment, the Corporation of London and we have both committed £2 million to get it started.

Q68 **Mr Simon Clarke:** Over time is that intended to be scaled? Is this an annual commitment?

Charles Roxburgh: That is the starting funding. We have asked the GFI, under Sir Roger Gifford's leadership, to develop a strategy and then we will look at longer term funding on the basis of that strategy.

Q69 **Mr Simon Clarke:** When will that strategy be completed?

Charles Roxburgh: That strategy is due to be published in the spring of next year

Q70 **Mr Simon Clarke:** That is helpful to know, thank you. In terms of value for money considerations, what considerations has the Treasury given on that score in terms of what the metric for success will be for the GFI?

Charles Roxburgh: The success of our financial services industry is hugely important for public finance. It is one of our most successful global industries. It is also a very significant source of tax revenues.

We see green finance as one of the major growth opportunities in global finance. The various estimates for how much investment will be needed to finance the world's new energy systems are measured in the trillions. The City of London hopefully being the world leader in green finance would have very significant payback, dwarfing a small investment in this initial start-up.

Q71 **Mr Simon Clarke:** Does the fact you need to establish this show the GIB was intrinsically of value? The mere fact that, within a year, the Government have to intervene in this market to try to make sure this potential is realised, does that not show there was an ongoing value to having the GIB in the marketplace?

Charles Roxburgh: They are doing very different things. The GIB was established at the stage when there was perceived to be, and demonstrated to be, a market failure in this early stage finance for clean energy infrastructure. We had to make that case to the EU, under the state-owned regime, to say there was a market failure and that justified intervention in financing at the early stage.

We now have a very successful system of Contract for Difference. We have worked very well at attracting very significant investment into offshore wind. We have a very large share of the offshore wind investment through that system of Contract for Difference.

Therefore, we would look on the Green Investment Bank as having been successful at that early intervention, to address a market failure. A mark of its success is that we do not need to provide that financing because



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the private sector has come in. This is now a well-recognised and proven asset class and the private sector can invest in it.

The GFI has a different attitude, more capturing the overall opportunity for the UK and London in this market.

Q72 Mr Simon Clarke: I certainly endorse what you say about the huge success of the Contract for Difference mechanism, it has been incredible.

Another scheme that was very successful while it was running was that of feed-in tariffs for domestic solar energy. That, of course, has been removed. Is there an element whereby there is a disconnect between what Treasury policy is achieving and what the Chancellor set out and mentioned in her speech about making sure the Government really is a world leader on clean energy?

If you add to the feed-in tariffs the removal of the Climate Change Levy exemption for renewable energy generators and the exclusion of solar arrays for commercial property from business rates in the 2017 review, there is bit of a pattern here whereby quite a lot of valuable green initiatives have been scrapped on cost grounds.

Charles Roxburgh: There is always a challenge as to how to prioritise where the Government spend their money in support of any of their policy objectives, including in green energy.

The feed-in tariffs is a Department for Business, Energy and Industrial Strategy lead, although obviously the Treasury was heavily involved in decisions about funding and prioritising it.

The pattern that I think we see is there is a case early on to try to get early adoption. Then there is a choice of whether it needs continued support. Overall the UK is making good progress at decarbonising its energy sector. Offshore wind has been a great success. We are seeing solar, even without these subsidies, also being an important source of clean energy.

When the Government have limited resources we have to focus them. The Chancellor has made a number of important interventions and statements on electric cars and the charging infrastructure. We need to constantly re-evaluate, when there is limited finance, where can we intervene to have the most impact.

Q73 Mr Simon Clarke: In terms of the specific decision about solar arrays for commercial property in the 2017 business rates review, was it a Treasury decision to exclude them or was that BEIS decision?

Charles Roxburgh: I would need to go back and check.

Sir Tom Scholar: I think I can answer that one. If I understand correctly, the business rate relief measure was introduced in 2008. As you say, it was an exemption for business rates. From the beginning, it was always restricted to the existing period of valuation so that at the



next revaluation the exemption would fall. What happened was—as of course you know—in 2017 the previous pattern of seven-year revaluations for different reasons changed to three-year revaluations. Therefore, that was not a question of tax policy. I accept it has the consequence, other things being equal, of reducing the support provided here but it is not a tax policy issue.

Q74 **Mr Simon Clarke:** It was not taken on fiscal grounds?

Sir Tom Scholar: If I recall, it was taken in order to ease the process of adjustment for businesses to changes in business rates.

Q75 **Mr Simon Clarke:** In terms of good examples we can point to of Treasury policies that are specifically offering the incentives we all want to see for business and individuals to go green, what policies would you point to as being the most effective?

Charles Roxburgh: The big impact of the transformation of our energy generation through the Contract for Difference. It is a BEIS lead. The Treasury works very closely with it for that. It has been a very successful policy.

We have some successful—although quite small scale—schemes for incentivising green investment in the public sector. What are the other ones? We are trying to incentivise a switch to electric vehicles, a combination of setting a target for when we want to see the decarbonisation of the fleet and also incentives for getting charging infrastructures out. The Chancellor has announced a number of measures on charging infrastructures, including workplace car parks. The big one now is the transition to an electric fleet over the next 15 to 20 years.

Q76 **Mr Simon Clarke:** Do you think we are on course to deliver the level of infrastructure required? Certainly, when I am in London, I do see evidence of electric vehicle charging points. Indeed, there is one outside my apartment block. I do not think there is a single one in my constituency. I am conscious this may be a very London-centric programme. Is that a fair criticism?

Charles Roxburgh: This is one of the issues the National Infrastructure Commission looked at in its 30-year assessment of the infrastructure we need. Clearly, we do need to address the so-called “range anxiety” for people getting an electric car. As you say, it is fine if you are just going around London but if you want to drive 200 miles you want to make sure you are going to be near a charging structure.

Mr Simon Clarke: Exactly.

Charles Roxburgh: There are a number of ideas out there for how to do that. When we respond to the National Infrastructure Commission—which we will be doing in the spring/summer of next year—we will come back to that issue.



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However, like many new technologies, you are seeing this at the early stages of adoption. One needs to get the right sequencing of people who will only buy the cars if they know the infrastructure is there, but you have to make sure the infrastructure is there before they buy the car. That is an important policy choice, which we are working on with BEIS. That is, in terms of infrastructure, one of the big challenges we need to get right over the next five to 10 years so people will make the switch.

Q77 Mr Simon Clarke: In terms of how the Treasury itself is addressing climate change—this may be an issue for you, Kate—in its portfolio of investments, is there a conscious decision to make sure we are not contributing to, say, polluting technologies but, as the flipside of that, working proactively to support the green initiatives of the future?

Sir Tom Scholar: Let me have a go at that.

Mr Simon Clarke: Kate, I am sorry, you never get a chance to speak.

Kate Ivers: That is all right. When you ask about the accounts I will come in.

Sir Tom Scholar: The Treasury is not an investor, typically.

Q78 Mr Simon Clarke: There are the Government's assets. You do have an underlying asset base, don't you?

Sir Tom Scholar: In the commonly understood sense of the word we are an investor in the sense we allocate money to Departments. One of the things I am quite sure Ministers will want to address in the Spending Review will be precisely this question of a coherent position across the Government and their overall support of decarbonisation and other environmental targets. That is the main respect in which I would think of the Treasury in some sense as an investor.

We do end up with things on our balance sheet. Typically, not invariably, if they are on our balance sheet it is in order to solve some different problem such as QE or intervening in the banking sector.

Mr Simon Clarke: You end up with a miscellaneous collection.

Sir Tom Scholar: We are not normally an investor.

Mr Simon Clarke: That is very helpful, thank you.

Q79 Chair: Thank you. I am going to bring in Stephen but I want to ask you one thing that I do not think we have covered, although we have discussed around it.

Mr Roxburgh, I think you were talking about incentivising behaviour and investing in electric vehicles. It was brought to my attention last week that the DfT made some changes that come into force over the next month to the plug-in car grant, which is going to be cut. Since 2011 it has knocked £4,500 off the purchase price of a brand new electric vehicle. That will be cut in November by £1,000 and incentives of £2,500



to buy new hybrid cars will be abolished all together.

I do not expect you to comment unless you are aware of those individual decisions that have been made. Catherine asked earlier about your involvement in NHS spending decisions or announcements, for example. I think it is agreed green finance is very important and you talk rightly about incentivising green behaviour. How do those decisions get made in other Departments and how do you in the Treasury feel when that undermines the overall drive of Government to incentivise people's behaviour in a more green fashion, if I can put it like that?

Sir Tom Scholar: I am not familiar with the details of the particular case you raise. Just because I am not that is not to say the Treasury is not, and it may well be the case there has been a discussion and Treasury Ministers have been involved too. I do not know that but I can certainly find out.

Chair: If you are able to find out, it would be interesting to know if the Treasury was aware.

Sir Tom Scholar: I can certainly find out in that specific case.

On the general question, the way in which—not just the Treasury but the centre of Government, the Treasury, the Cabinet Office and No. 10—we try to get coherence across Government and across spending programmes is precisely through the mechanism of the Spending Review. Typically, the Spending Review will set out not just spending plans for individual Departments but also plans for how to address issues that cut across Departments, this is one example but there are plenty of others too. You would seek in that Spending Review to reach a coherent position.

We are obviously getting towards the end of the period set out at the last Spending Review. As things move and priorities change things inevitably change. I am quite sure this will be an overall issue that we will try to address then.

Charles Roxburgh: If I can add one point on that, another co-ordinating mechanism across Government is the industrial strategy, and the opportunities for clean energy are one of the four Crown challenges. That means all the Departments that are involved in economic policy making—BEIS, the Treasury, DIT, DEFRA—as part of that effort to make the industrial strategy an important co-ordinating force across Government will be thinking about the opportunities in everything green.

Chair: That is very helpful.

Q80

Stephen Hammond: Sir Tom, proving the theory you are never more than 30 minutes away from a discussion on Brexit, when the Secretary of State for Exiting the European Union said on 12 September we, "wouldn't pay a penny more than we were strictly, legally required to do", could you say what the Treasury's view of what we are legally required to do



is? Is the Treasury clear about what the composition of that payment is?

Sir Tom Scholar: During the course of the negotiation on the financial settlement, as you would expect, we took legal advice on the extent of our international obligations at the moment of leaving the European Union. To state the obvious, this is an unprecedented situation so the lawyers are in the position of advising on issues when there is really no case law so it is necessarily uncertain.

The settlement we reached, and that was agreed in December last year between the UK and the EU27 through the joint report, was not based simply on a strict reading of legal obligations. It was a negotiated settlement and was a settlement very clearly on the basis of an overall agreement. I should read this because it is absolutely critically important. Paragraph 96 says the report is, “agreed by the UK on the condition of an overall agreement under Article 50 on the UK's withdrawal, taking into account the framework for the future relationship, including an agreement as early as possible in 2018 on transitional arrangements”. It was a negotiated good faith settlement.

Of course, the question of legal obligations has received a lot of attention. As I am sure you know the NAO did a report earlier this year. I think this Committee took evidence from the Comptroller and Auditor General, Sir Amyas Morse, on that report. In the preparation of that report they asked us for the legal advice. The decision of Ministers was that it would not be appropriate to release or make public the legal advice while the process of negotiation was still continuing, but we had authorisation from Ministers to provide it to the NAO on a confidential basis. Therefore, they had access to the advice in preparing the report.

That is the context. The direct answer to the question of what precisely is the legal obligation is that it is impossible to say with any certainty. The UK policy is to reach agreement on a withdrawal agreement and a future agreement so it is in that context that the agreement needs to be seen.

Q81 **Stephen Hammond:** I understand that is the UK Government's policy. I expect many of us in this room would want that, on the basis a no-deal scenario is about as bad economically as you can imagine from here, which is my personal view.

However, this is quite important because you have just said it is imprecise. Given you supplied the NAO with information on a confidential basis, they estimated—you will have read the report as well as I can—that £19 billion of the much-quoted £39 billion figure is due to liabilities as a part of our previous membership of the European Union. Is that the approximate scale of figure this Committee should assume are our liabilities?

Sir Tom Scholar: I would say two things there. First of all—I take what you say about your view on the desired outcome, which is the Government's one too—let us say for the sake of argument there is not agreement on a withdrawal agreement. Ultimately that is in the hands of



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Parliament. I am coming directly to your question but, in those circumstances, there would be a need to settle our outstanding obligations to the EU.

- Q82 Stephen Hammond:** My question—I will make a shortcut for you—is has the Treasury been asked to provide advice to Ministers on what the cost to the United Kingdom would be if we were not have to deal, the strict cost as opposed to any future economic cost?

Sir Tom Scholar: Yes, we have provided internal advice to the Chancellor on that question.

- Q83 Stephen Hammond:** The sum of money the NAO estimates as our approximate liability is £19 billion, which would be still potentially payable presumably, even in the event of no deal. Is that a figure the Treasury recognises?

Sir Tom Scholar: In getting that figure—as set out in the Chancellor's letter of January to this Committee—it has looked at how we have set out the different elements of the financial settlement. One of those elements is what is known as the RAL, the one you are referring to.

In the event of no deal the actual obligation would have to be settled in one of two ways. One way would be a negotiated settlement with further negotiation. The second way would be ultimately through the courts. I do not think you, or this Committee, should assume that in either of those scenarios the EU would accept that was the full total of the liability. In fact, going back to the paragraph I read to you earlier, it says that the report is agreed by the UK on the condition of a future framework and transition. The inference from that is the EU does not make its view conditional on those things. In those circumstances, further negotiation or a court settlement, I do not know what their approach would be.

- Q84 Stephen Hammond:** The claim being made by certain people that in the event of no deal this country would save itself £15 billion clearly economically is questionable and also legally is questionable.

Sir Tom Scholar: It is impossible to say it with any certainty because it would depend on either a negotiation or a legal process and the outcome of either is, by definition, not knowable.

- Q85 Stephen Hammond:** In answers to Ms McKinnell, you said the Treasury was preparing the economic analysis of various scenarios for the economy post Brexit. I understand you and the Bank of England are doing it jointly, is that correct?

Sir Tom Scholar: No, the Bank of England is doing separate work—it has written to the Committee on this—on its statutory responsibilities, monetary stability and financial stability. What we are doing is—this is part of a completely cross-Government and Government Economic Service work—a cross-Government analysis of the agreement, ready to



be presented to Parliament when that agreement is struck. The Bank of England is not involved with that work.

Q86 Stephen Hammond: At what stage do you expect to be able to publish that report after the agreement, should it be reached?

Sir Tom Scholar: Our intention is to be ready to do it as soon as possible. To state the obvious, it slightly depends upon what the final agreement is. The work that was made available to Parliament, and then published by Parliament earlier this year, looked at a number of stylised outcomes. Since the Government's proposals were published in early July, we have obviously been analysing those. If that is what is agreed we will be ready very quickly, although it will need to be approved by Ministers. To the extent it is any different, it may take a little time to adjust to reflect that.

Q87 Stephen Hammond: One point of detail, obviously the Trade Bill going through Parliament currently anticipates that the Government intend, with EU consent on the basis of a deal and counterparties' agreement, to rollover trade deals. There is a potential, of course, either for that Bill not to pass or counterparties not to agree that the UK can just roll those straight over.

In terms of the cross-Government Economic Service, what analysis has been done of the potential to have to renegotiate trade deals and on what basis has that analysis been done?

Sir Tom Scholar: That is, of course, the lead responsibility of the Department for International Trade.

Q88 Stephen Hammond: Of course, but presumably you co-ordinate the Government Economic Service and, therefore, you will be taking some view of what they are putting into their analysis?

Sir Tom Scholar: I am not familiar with the answer to that precise question on that precise issue. There is obviously a need to make sure those agreements are—whatever the correct verb is—extended or replicated through this period. I know they are in discussion on that. What I am not sure about is where that features in the analysis.

Q89 Stephen Hammond: You can see my point that in scenario planning if, for instance, we have a trade agreement with a country at the moment, as part of the EU, but when we are not they choose not to allow us to roll that agreement over. We will then have to remake that agreement. The size and nature of the terms on which we do that deal could be quite significant to economic circumstances; therefore it is quite an important variable in any analysis.

Sir Tom Scholar: I absolutely see that point, yes.

Q90 Stephen Hammond: Thank you. Two final points, Chair, if I may. On 21 August the Treasury published a draft SI, Capital Requirements (Amendment) (EU Exit) Regulations. Broadly that says that in the event



of no deal the capital treatment of EU assets held by UK companies would have to change.

Given that is EU assets held by UK firms, I understand that potentially the Treasury, I suppose, is worried that the potential treatment of UK assets held by its own firms has been removed by the EU. However, surely are we not just punishing UK firms by asking them to change the treatment of EU assets, it does not help us at all does it?

Sir Tom Scholar: You have correctly identified the reason for the change there. In the existing EU framework there is a preferential risk weight applied to assets elsewhere in the EU, which is not available for assets elsewhere in the UK. That, in particular, reflects the fact of being in a single market with a single rulebook with the principle of home supervision and all of the co-operation that goes with that, and the confidence that home state supervisors can take in the quality of assets elsewhere.

The reason for making the change is, of course, these legal instruments envisage a world with a third country to us. In that world, absent some better agreement on financial services—of course, we would hope to achieve that—and without that close co-operation on financial services we are looking for there would be no reason to give that preferential treatment. It would be, in those circumstances, appropriate to treat the assets like any other third country assets.

Q91 **Stephen Hammond:** I understand the basis for the treatment. However, you accept the statement the Treasury made that firms should continue to plan on the assumption they will be able to trade on current terms post 29 March and on what you are saying they will have to change the capital base, which may or may not be injurious to their overall position.

Sir Tom Scholar: The statement you have quoted there I think comes from the technical notice we published. The reason it is there is that the current guidance from the regulators to the regulated firms is that they should plan on that basis, because we are intending to achieve an implementation period in which there would not be a regime change.

Q92 **Stephen Hammond:** At the moment the regulators are asking to assume day 1 change, are they not? They are asking for more risk capital and more people to be placed overseas.

Charles Roxburgh: The statutory instrument in this case, and like in a number of cases, gives regulators discretion on the phasing in of this requirement. It is a matter for, in this case, the PRA. It will be shortly publishing how it intends to implement this statutory instrument through its rules. It has the discretion to phase it in. It is up to them to set that out. It will be consulting on that. It does not necessarily have to be immediately on day 1 but it is a matter for the regulator as to how it judges to phase in that requirement.

Q93 **Stephen Hammond:** Thank you. There will be a phasing-in notice that



will update guidance?

Charles Roxburgh: It is a matter for our independent regulators to decide whether they will phase it in and over how long. When they publish their first wave of how they are planning to implement the statutory instruments they will consult on their proposal for that. That is a matter for the PRA rather than for us.

Q94 **Stephen Hammond:** It could have implications for financial stability?

Charles Roxburgh: Were the PRA to be concerned it did have implications for financial stability and it was material enough, it would certainly be able to take that into account. However, that is a matter for the regulator to consider. It has the ability to phase it in, if it was concerned about that.

Q95 **Stephen Hammond:** Can I ask one final question, please? Last week the FCA produced a consultation on the changes it has proposed to the rulebook that would be needed in the event of no agreement that is a no-deal scenario. That ran to 781 pages, I understand. I have to confess I have not read all of them yet.

Can you convince this Committee the Treasury has had sufficient oversight of that? Will Parliament have sufficient oversight of the changes to the rules in that situation?

Sir Tom Scholar: On the first question, for the last two years there has been a long process underway—joint work between us, the PRA and the FCA—preparing for leaving the EU. Obviously, for all three of us, the first best is that the implementation period is agreed and nothing in this area changes very much and we have a bit longer to get ready for the next phase. Equally, we need to be ready for the possibility that does not happen. We are bringing forward 72 statutory instruments—some of which are laid, some of which are published in draft and some of which are still to come—and the regulators are producing their own rules. Their rules are their rules but we are fully in discussion with them about that.

In answer to your second question, which I think is a very important question, we are obviously moving—whether next March, two years later or whenever it is—from a legislative and regulatory regime based on EU processes to one based on UK processes. There is currently, in the existing framework, a clear division of responsibilities between Government, parliamentarians, both national Parliament and the European Parliament, and regulators.

In setting out the new arrangements the UK is going to impose we—when I say “we” I do not mean just the Government, I mean the Government with Parliament, with the regulators and by consulting the industry—will need to agree a clear division of responsibilities. There are some things that clearly would have to go into primary legislation and there are some things that would clearly be the natural purview of regulators to set their



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own rules, and then there is a lot to be discussed in the middle as to what goes there.

As I said earlier, this is, along with some other things, not the top of the list of things to do right now. Even if we assume an implementation period, and we need to get all of this into shape by 2021, that is not very long. We collectively—and I am sure this Committee will be extremely interested in this question—need to address how we divide up those responsibilities.

Q96 **Stephen Hammond:** On the basis we get a deal and it is 2021 it is certainly not top of the list, but on the basis that something was not to be agreed it will become very urgent.

Sir Tom Scholar: Being realistic, in that case there would not be time to address the question of the ultimate destination of the regulatory regime. The European Union (Withdrawal) Act that Parliament agreed earlier in the year specifies this very clearly, so the legal base on which we are producing all these statutory instruments is quite specifically to fix immediate problems that need fixing in terms of on-shoring, to use the technical term. It is not about the long term.

Q97 **Stephen Hammond:** Ensuring the presence of these financial regulations will be quite tough in three months.

Sir Tom Scholar: There is an awful lot to do.

Q98 **Chair:** Thank you, I am going to hand over to Rushanara. On that subject, just checking, I think you mentioned 72 statutory instruments from Treasury?

Sir Tom Scholar: I think that is correct, yes.

Q99 **Chair:** So far we, Parliament, have seen 11. Treasury is not an outlier. It is in the Hansard Society that the Department for Transport has laid 18, by the looks of it, and right down to Revenue and Customs with one. Eleven is about the same as the BEIS Department.

However, when do you expect the other SIs to be laid before Parliament?

Charles Roxburgh: We have a timetable, which depends a bit on parliamentary business. There are also some we can group together so the number may come down a bit as we group them. We have waves through to November and then some in December. Each month we are laying them in a timetable but it is subject to parliamentary business management and when they come through. However, some of them are completely ready to go and some are in the final preparation. We are confident we can get them ready in time to be introduced into Parliament. With all these SIs it is a challenging timetable but our team has worked hard and we think we can meet the timetable.

Q100 **Chair:** Is that a timetable the Treasury is able to share with this Select Committee, the order in which ideally things are planned to be laid? That



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is partly because the Committee itself is one of the elements of Parliament that is best placed to look at some of the details and we will undoubtedly receive representations, I suspect, on some of the SIs from people outside who are going to be affected.

Sir Tom Scholar: Can I make a suggestion there? The one thing I am not sure about is how firm that timetable is because it is subject to lots of things. Could I suggest we discuss—either with yourself or the clerk—what would be the best mechanism to ensure you are informed, not just when statutory instruments are published but what is coming down next so you can plan your work programme accordingly?

Chair: That will be very helpful, thank you very much.

Q101 **Rushanara Ali:** I want to focus my questions on mortgage prisoners. As you know there are people who took out mortgages before the affordability checks were introduced, who have then found themselves trapped in mortgages because they do not pass those checks and are stuck with rates that are higher. They do not qualify for cheaper mortgages, which is perverse.

As part of the sale of its Northern Rock mortgage book to Cerberus in 2015 the Government said, “A key consideration for UKAR in selecting the successful bidder was the continued fair treatment of customers. There will be no changes to the terms and conditions of the mortgages involved in this transaction”. Is that still the case?

Charles Roxburgh: I am happy to take that one. First of all, this issue of mortgage prisoners is, as you say, a serious concern. It derives from the European Mortgage Credit Directive that requires new borrowers to undergo affordability tests. That is a very important step in consumer protection, so people do not over borrow and end up having to go through the pain and anguish of losing their home. It is a very important test.

It also applies on re-mortgaging and can lead to perverse outcomes so if people do not meet the affordability test on a cheaper mortgage they do not qualify. The FCA is consulting on whether it can address that problem. It has a proposal for people to be able to re-mortgage within their existing lender.

Q102 **Rushanara Ali:** Going back to the statement that was made in 2015, when the Government made the statement they were aware of the European regulation, weren't they?

Charles Roxburgh: Yes. The important point is that people cannot re-mortgage with UKAR now because UKAR does not offer new mortgages.

Q103 **Rushanara Ali:** That is not my question. My question is that the Government were fully aware of the European regulations around affordability checks when they gave people this assurance they would be treated fairly. Why did they do that?



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Charles Roxburgh: First of all, they are being treated no differently. If they can pass an affordability test then they can move to another lender. UKAR has set in place processes to make that easy.

Q104 **Rushanara Ali:** Do you not think it is disingenuous to make a statement like that, knowing the affordability checks would have affected them in this way?

Charles Roxburgh: Because they are with UKAR now, the affordability checks mean they cannot re-mortgage within UKAR and cannot pass the affordability test elsewhere. The sale makes no difference. Landmark is the company that Cerberus owns that is administering it. That is covered by FCA regulations so all of the rules about treating customers fairly apply. Therefore the mortgage customers being served by Landmark are protected by Treating Customers Fairly.

Q105 **Rushanara Ali:** Can I draw your attention to the “Panorama” report, which discovered that Cerberus told the Government it was planning to offer homeowners better mortgage deals before its £13 billion purchase of former Northern Rock mortgages in 2016. However, the company has not provided any new mortgages and 65,000 homeowners are still trapped on high interest rates. That is the situation. At the time the Government were of the understanding that mortgages would be available. Could you comment on that?

Charles Roxburgh: That was the information that was provided to—

Rushanara Ali: This is the story that came out of the “Panorama” programme.

Charles Roxburgh: Cerberus said that was its intention at the time. It has not entered the new mortgage market. However, the provisions around protecting existing customers who are now being serviced by Landmark are fully protected by Treating Customers Fairly.

Q106 **Rushanara Ali:** Going back to the decision of the Treasury to sell assets such as mortgage books, would it not have been better to make sure what was supposed to happen actually happened? It seems to me these people were stuck in this situation first of all because of the affordability checks and then their interests were damaged by the decision the Government took to sell to this particular company.

Charles Roxburgh: The setting up of a new mortgage lender was not a condition of the sale. It was stated to UKAR as something Cerberus was considering but it was not a condition of the sale. When we do sell these books of mortgages our concerns are around making sure there are customer protections in place, the services are properly regulated and all of the protections are in place there. Access to new mortgages, without an affordability test, is something people do not have at UKAR today. They are therefore no worse off by not having it at Landmark when they were sold there. We cannot solve that problem without a change in the Mortgage Credit Directive.



Q107 Rushanara Ali: I am sorry but just to press you on this: do you not think this is inherently contradictory? The Government made a decision to sell to an organisation that has shifted the goalpost. On the other hand, there is a statement saying people should be treated fairly, which is clearly not the case here. Is there not a responsibility to make sure pressure is applied by the Treasury to this company to make sure people are treated fairly? They are stuck in this situation, through no fault of their own, where—because the circumstances in the policy framework have changed and the regulations have changed—they are stuck, ironically paying more than they would have been. This needs to be sorted out and the Treasury has a very important role to play here.

Charles Roxburgh: We are working closely with the FCA, although it is an FCA lead, on what can be done about this general problem of mortgage prisoners. We hope there will be progress on that for existing lenders. We cannot solve that problem for customers whose mortgages are not held by someone, not just UKAR, who is currently active in the mortgage market. We have not found a solution to that problem without a change to the Mortgage Credit Directive because people cannot move to another lender without passing the affordability test.

While it is frustrating it is not evidence of not complying with Treating Customers Fairly. That is a matter for the FCA as regulator of, in this case, Landmark or UKAR, which is also regulated by the FCA and has to meet all the standards of Treating Customers Fairly. It is a matter for the FCA to ensure they are meeting those standards. However, not providing new mortgages is not, of itself, evidence of not treating customers fairly.

Q108 Rushanara Ali: The FCA said it has managed to help about 10,000 of these customers who hold active mortgages. The issue is the inactive mortgages. There does seem to be a tendency to pass the buck between different agencies and institutions while people are tens of thousands of pounds worse off and some of them are at risk of losing their homes.

Do you think there should be some sort of special provision to help those people who are likely to lose their homes in these circumstances? Who is doing the thinking? We have a letter from the head of the FCA. He is talking about another 120,000, plus the 20,000. Since last summer there seems to be a bit of movement for 10,000 people but there are still 140,000 people who are stuck in this trap. It does not seem satisfactory. Is this something the Treasury and the FCA could work together on? What are the lessons that could be learnt in the future when the Government make these sales? I do not know, Sir Tom, if you would like to come in on this.

Charles Roxburgh: UKAR has in place a set of measures to try to help as much as they can within the current framework. It has waived all early redemption charges. It has set up an online deal finder tool to help people search for mortgages from other providers. It is in partnership with a firm called Mortgage Force, brokers, and it can refer customers to



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a specialist broker. UKAR is doing everything it can to help people switch from its mortgages to other people when they can make that move.

We have not been able to find a solution to the customers who would not pass an affordability test, although we have tried and will need to consider it again. Tom, do you want to pick that point up?

Sir Tom Scholar: As Mr Roxburgh says the problem here is the constraints imposed by the law. Whether there is more we can do, I do not know. What we should do is take your comments back, look at them again with the FCA and also bring them to the attention of our Ministers, and then write back with a definitive Government position on it. I think it is something we ought to go to our Department Ministers with.

Q109 **Rushanara Ali:** By virtue of the fact that mortgages are a long-term commitment this is something where, even if people could afford to pay the mortgage they had originally taken out or slightly more than that, they are having to find money for way more than they had budgeted for. It seems bizarre that we have people stuck in this situation. It is dragging on and needs an answer.

Perhaps one of the things the Treasury could look at is whether there is additional support or hardship funds—I do know what you want to call it, whatever it is—to help people so they do not end up having their homes repossessed. Is there a compensation mechanism that could be set up or some sort of way of offsetting the additional costs if the current systems and provisions that are there do not address this problem? That is what is needed here, given the 140,000 who are still in difficulty. It would be a great shame if, with all the brains in the Treasury and the FCA, we could not come up with a solution to this problem.

Sir Tom Scholar: In answer to your question, as far as I know I do not think there is any existing mechanism available. It is obviously something Ministers could consider.

Q110 **Rushanara Ali:** I think your Ministers would be receptive. They have constituents who are affected by this. The frustration in this is that it has been going on for some time now and the progress is very, very slow. I do not think this is that difficult a problem to resolve. In terms of the points about legislation, regulation and people falling between stalls, it is a much more complex problem.

Chair: We have raised it and raised it.

Rushanara Ali: However, there may be a solution in looking at how to support families who have to pay tens of thousands of pounds more and who are at risk of losing their homes and provision of protection some other way. That is what needs to be done and we need to see better results than we are getting so far.

Charles Roxburgh: If I could clarify one point? They are not paying more than they contracted for, they are just not able to refinance for less.



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Rushanara Ali: Sorry, I have not expressed it as eloquently. It is what they are likely to lose out on perhaps.

Q111 **Chair:** The point is that, as a society, we are encouraging people to switch to cheaper deals and move around. The action the Government have taken in selling these loans to non-active lenders, or to Cerberus in this case, means customers are not able to take advantage of the behaviour that, broadly, is now encouraged in the marketplace.

Charles Roxburgh: If I could clarify that? Frustratingly, they cannot do that if they are at UKAR and they cannot do that once they have been sold. It is a fact that neither UKAR nor Landmark, owned by Cerberus, are active lenders. The customer is no worse off but, as you say, they are not able to be better off.

Rushanara Ali: It is the opportunity cost.

Charles Roxburgh: We have to solve the problem generally. It is not a problem of the sale; it is a problem of someone with a mortgage from an inactive lender so we need to solve that problem.

Chair: Originally customers took out mortgages with lenders who were perfectly normal high street lenders. Through no fault of the customer the lender got itself into trouble and was bailed out by the Government, for very understandable reasons. The point is they could be paying a lot less. Given all the pressures on the cost of living and household finances what we expect everybody else to do is shop around to find cheaper deals in order to make their household income go a little bit further, if that is possible. They are not able to do that because of the action that has been taken, maybe for very worthy reasons, by the Government.

Rushanara Ali: I have a very good example that was cited in the press, Lisa and Mark Elkins have to pay £2,500 a month on their mortgage because their interest rate is now nearly 5%, which is three times the best rate in the market. There are lots of examples like that. They have had to borrow tens of thousands of pounds that they would not have had to if they had access to alternative mortgage offers. Therefore I find it hard to stomach the assertion people are not worse off, with respect.

Q112 **Chair:** Are you able to write to us about that, once you discuss it with Ministers, as to a way forward?

Sir Tom Scholar: We will do that.

Q113 **Chair:** We cannot have you, Ms Ivers, sitting here the whole afternoon without having at least one question directed towards you. You may not be quite so happy when I have asked you the question.

I want to ask about the Carillion collapse. In the Treasury's annual report it is stated the Department made a loss of £3 million on the Midland Hospital collapse. My question is: why is that the only one that has been disclosed? Were there other Carillion losses the Treasury incurred that fall below the £300,000 reporting threshold and, if so, what are they related to?



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Kate Ivers: I will start and I am sure Charles will want to come in on this. There was nothing else that needed to be disclosed in the accounts as at 31 March 2018.

Q114 **Chair:** Nothing else that needed to be disclosed. Are there other losses that the Treasury did not disclose?

Kate Ivers: There were no other losses below the £300,000 threshold that are somehow hidden in the accounts.

Charles Roxburgh: If I can add to that, this is one of our six PF2 projects where we are equity owners. On that one we took the full loss so that was disclosed. Of the five remaining PF2 contracts, total exposure is around £6 million. On one of them, eight schools, the lead contractor was Carillion. They are much further advanced. In fact, other than one school sports hall, they have been handed over. We keep that one under review but there is nothing to be disclosed on that.

Q115 **Chair:** What are the aggregate losses for first, the Treasury and secondly, the Government as a whole—I appreciate you might be able to answer the first question rather than the second—from Carillion's collapse?

Charles Roxburgh: The short answer is: until liquidation is completed, with all the recoveries, we will not know the final number. The NAO report included an estimate at the time of £148 million, which is a Government wide number. That was based on forecasts. We hope that number will come down but we will not have a firm number until the insolvency is completed, with all the assets and liabilities settled.

Q116 **Chair:** Finally, you say you hope the number will come down. Does the information that is presumably is emerging give you confidence to expect that number to come down?

Charles Roxburgh: We hope it will but I do not want to predict until we get the final number because you never quite know how an insolvency will end. We are hopeful it will come down.

Chair: That is great. Thank you very much indeed for being here to give evidence this afternoon. We are very grateful to you for your time. I think there are a few issues to follow up on, which you are going to write to us about and we will also pick up in future sessions. For now, thank you to the three of you.